

## STATE OF ILLINOIS

### ILLINOIS COMMERCE COMMISSION

|                                |   |         |
|--------------------------------|---|---------|
| Illinois Commerce Commission   | : |         |
| On Its Own Motion              | : |         |
| -vs-                           | : |         |
| Union Electric Company         | : | 02-0729 |
|                                | : |         |
| Reconciliation of revenues     | : |         |
| collected under gas adjustment | : |         |
| charges with actual costs      | : |         |
| prudently incurred.            | : |         |

### ORDER

By the Commission:

In this proceeding, the Illinois Commerce Commission ("Commission") entered an Order commencing this purchased gas adjustment ("PGA") reconciliation proceeding, in accordance with the requirements of Section 9-220 of the Public Utilities Act ("Act"), 220 ILCS 5/9-220. That Order directed Union Electric Company ("UE", "AmerenUE" or "Company") to present evidence at a public hearing to "show the reconciliation of PGA revenues with the actual cost of such gas supplies obtained through purchases demonstrated by the [utility] to be prudent, and the measures taken to insulate the PGA from price volatility..." for the 12 months ended December 31, 2002 (the "Reconciliation Period" or "reconciliation year").

Pursuant to due notice, hearings were held in this matter before an administrative law judge of the Commission at its offices in Springfield, Illinois. Appearances were entered by counsel for UE and by members of the Energy and Financial Analysis Divisions of the Commission ("Staff"). Evidence was presented by UE and Staff, and at the conclusion of the hearings, the record was marked "Heard and Taken."

### **Applicable Authority**

In accordance with Section 9-220 of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq., the Commission may authorize an increase or decrease in rates and charges based upon changes in the cost of purchased gas through the application of a purchased gas adjustment clause. Section 9-220(a) requires the Commission to initiate annual public hearings "to determine whether the clauses reflect actual costs of . . . gas . . . purchased to determine whether such purchases were prudent, and to reconcile any amounts collected with the actual cost of . . . gas . . . prudently purchased." In each such proceeding, the burden of proof shall be upon the utility to establish the prudence of its applicable costs.

For gas purchases, the provisions of Section 9-220 are implemented in 83 Ill. Adm. Code Part 525, "Uniform Purchased Gas Adjustment Clause." Section 525.40 of Part 525 identifies gas costs which are recoverable through PGA. Adjustments to gas costs through the Adjustment Factor are addressed in Section 525.50. The gas charge formula is contained in Section 525.60. Annual reconciliation procedures are described in Section 525.70.

### **Information Presented by Union Electric Company**

UE's principal offices are located in St. Louis, Missouri. James Massmann, a Natural Gas Supply and Transportation Director for AmerenEnergy Fuels and Services Company, testified that UE provides natural gas service in Illinois to approximately 18,000 customers in Alton and adjacent areas. (UE Ex. 2.0 at 3) Approximately 65% of sales are to residential customers. He said UE's system in Illinois is separate and distinct from the Company's gas operations in Missouri.

Mr. Massmann described the Company's gas procurement, transportation and storage policies and activities with respect to its gas system in Illinois. Gas supply is transported into UE's service area, to points of connection with the UE system, by one interstate pipeline, Mississippi River Transmission Corporation ("MRT"). (UE Ex. 2 at 3) The UE system is also connected to one intrastate pipeline. A summary of the firm transport, firm storage and interruptible transport pipeline services available to UE in 2002, including maximum daily contract quantities, is contained in a table on page 5 of Mr. Massmann's testimony.

With regard to the procurement and utilization of gas supply in the Reconciliation Period, Mr. Massmann testified that the Company had firm supply agreements, obtained through competitive bidding, consisting of both baseload and swing supply entitlements as summarized in a table on page 10 of his testimony. He said the Company also purchased gas from the spot market during the off-peak period, for injection into storage and for use in meeting summer requirements. (UE Ex. 2 at 11)

The Company also represents that it used hedging mechanisms in 2002 to dampen exposure to price volatility. These programs were described in Mr. Massmann's testimony and in UE Exhibit 5.0 at 2.37.

The methods used by UE to forecast load requirements for the Reconciliation Period were described in UE Exhibit 5 at 2.15. The Company's peak day send-out in 2002 is shown in UE Exhibit 5 at 2.11 and in UE Exhibit 2.0 at 15.

With respect to the Company's reconciliation of PGA revenues and gas costs, Mr. Van Robinson, the Fuel Accounting Supervisor in the Accounting Department of Ameren Services Company, sponsored Schedule VRR-1 to his direct testimony (UE Exhibit No. 1.0). That schedule was intended to identify and reconcile all components of the

Company's 2002 gas costs and recoveries. Schedule VRR-1 purports to show that UE had over recovered gas costs from its customers during 2002 by the amount of \$1,073,924.

During the discovery stage of this proceeding, the Company discovered errors in the calculation of expenses in four of the PGA filing months included in this Reconciliation Period. These errors were related to storage injection fees. Mr. Robinson provided Schedule VRR-2, which shows the adjustments to the components of Schedule VRR-1 necessary to correct these errors. Mr. Robinson testified that the net result of these errors was that the Company had over recovered gas costs from its customers by \$1,073,729 instead of by \$1,073,924 as was reported in Schedule VRR-1. To correct those errors, UE requests that the Commission approve the difference between these amounts, in the amount of \$195, as the Ordered Reconciliation Factor in this docket as shown in Schedule VRR-2.

In addition, Mr. Robinson testified that an independent auditor, PricewaterhouseCoopers LLP, had audited the revenue and cost data presented in the schedules to his testimony. Mr. Robinson submitted a copy of the audit report as Schedule VRR-4 to his direct testimony.

### **Staff's Recommendations**

Ms. Theresa Ebrey, who is an Accountant in the Accounting Department of the Financial Analysis Division of the Commission, stated that she reviewed the Company's Purchased Gas Adjustment Reconciliation and analyzed the underlying data. (Staff Ex. 1.00) Ms. Ebrey had no objections to the Company's reconciliation of PGA revenues collected under its Purchased Gas Adjustment with the actual cost of gas supplies. Ms. Ebrey recommended that the Commission accept the reconciliation of revenues collected under the purchased gas adjustment clause with actual costs as reflected on Company Schedule VRR-2. In addition, she recommended that the Commission direct the Company to collect the amount of the Ordered Reconciliation Factor (Factor O) of \$195, in the first monthly PGA filed after the date of the Commission's order in this docket.

The Company did not object to Ms. Ebrey's recommendations. The Commission finds that Ms. Ebrey's recommendations are appropriate and they should be adopted.

Mr. Eric Lounsberry, a Supervisor in the Gas Section of the Engineering Department of the Commission's Energy Division, also provided testimony on behalf of the Staff. Mr. Lounsberry testified that he reviewed the Company's filing and its responses to numerous data requests concerning the prudence of the Company's gas purchases for the reconciliation period. Certain of these responses were entered into the record as UE Exhibit 5. Mr. Lounsberry testified that "using the Commission's criteria for prudence, [he] determined that UE's natural gas purchasing decisions [made during the Reconciliation Period] were prudent." (Staff Ex. 2.0 at 2)

### **Commission's Conclusions, Findings and Ordering Paragraphs**

The Commission concludes that the 2002 PGA reconciliation for UE, as shown in Schedule VRR-2 to UE Exhibit 1 and in the Appendix hereto, is reasonable and should be approved.

The Commission, having considered the entire record, is of the opinion and finds that:

- (1) UE is a corporation engaged, among other things, in the distribution of natural gas to the public in portions of the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;
- (2) the Commission has jurisdiction over UE and the subject matter of this proceeding;
- (3) the statements of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (4) the evidence shows that during the calendar year 2002 Reconciliation Period, UE acted prudently in its purchases of natural gas;
- (5) the reconciliation of the revenues collected by UE under its PGA for calendar year 2002 with the actual costs prudently incurred for the purchase of gas supply, as shown in the Appendix hereto, should be approved.

IT IS THEREFORE ORDERED that the reconciliation of the revenues collected by UE under its PGA for calendar year 2002 with the actual costs prudently incurred for the purchase of gas supply, as shown in the Appendix hereto, is approved.

IT IS FURTHER ORDERED that UE shall collect from its customers, as the Ordered Reconciliation Factor pursuant to its PGA tariff, the amount of \$195 as shown in the Appendix hereto, in the first monthly PGA filed after the date of this Order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.800, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 10th day of February, 2004.

(SIGNED) EDWARD C. HURLEY

Chairman